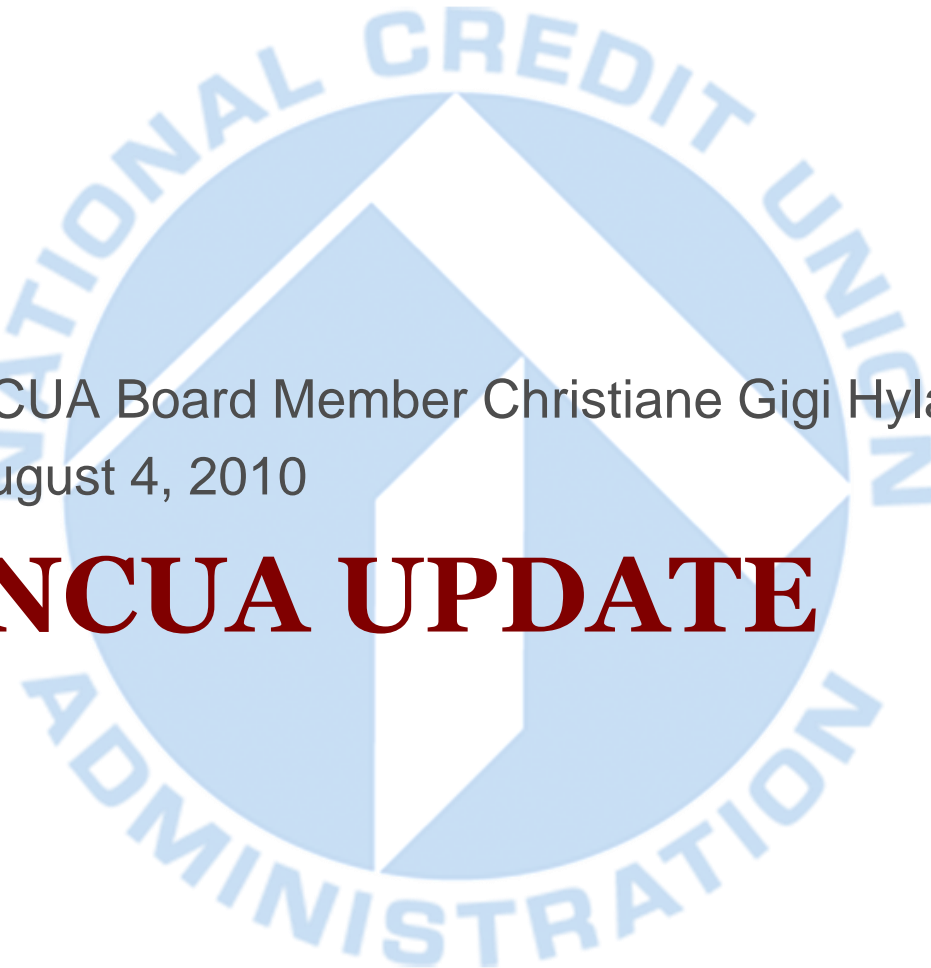


33<sup>rd</sup> ANNUAL NATIONAL  
**DIRECTORS'**  
CONVENTION



NCUA Board Member Christiane Gigi Hyland  
August 4, 2010

**NCUA UPDATE**





## Agenda



- Review national and credit union trends
- Discuss current regulatory issues including those directly affecting directors
- Discuss ongoing challenges for directors

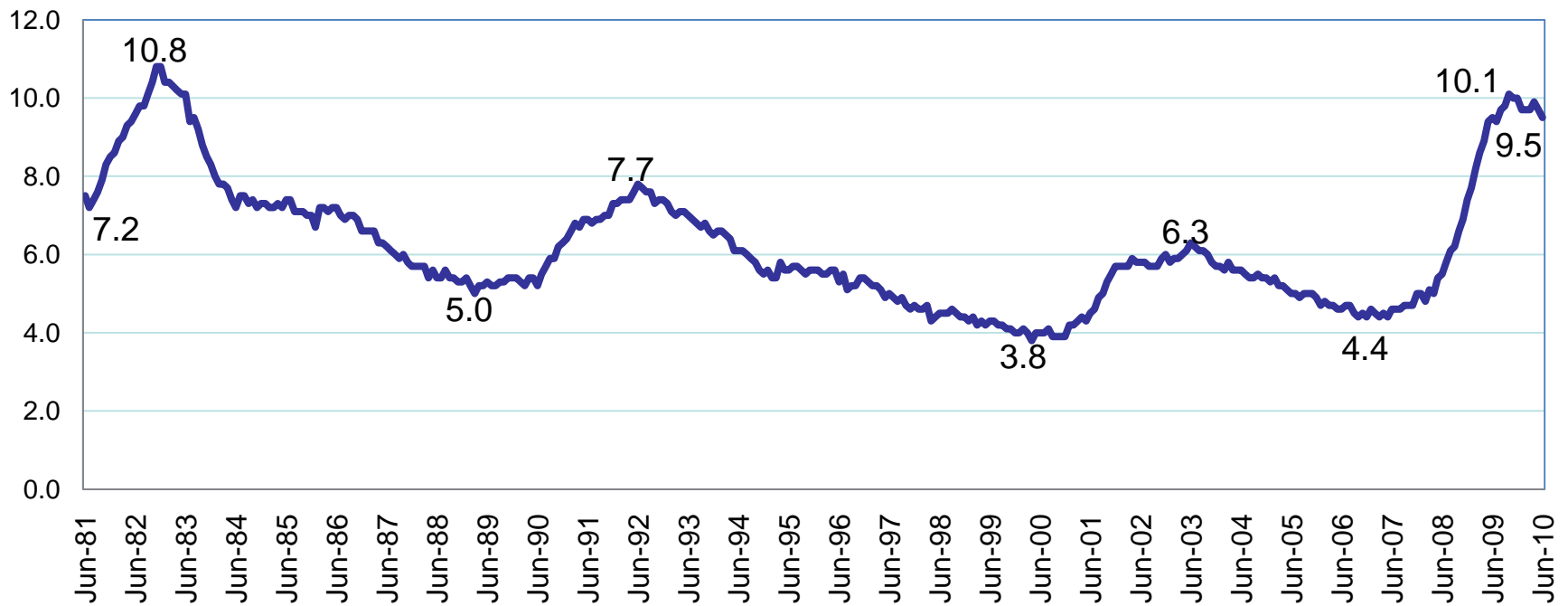


# National Economic Trends





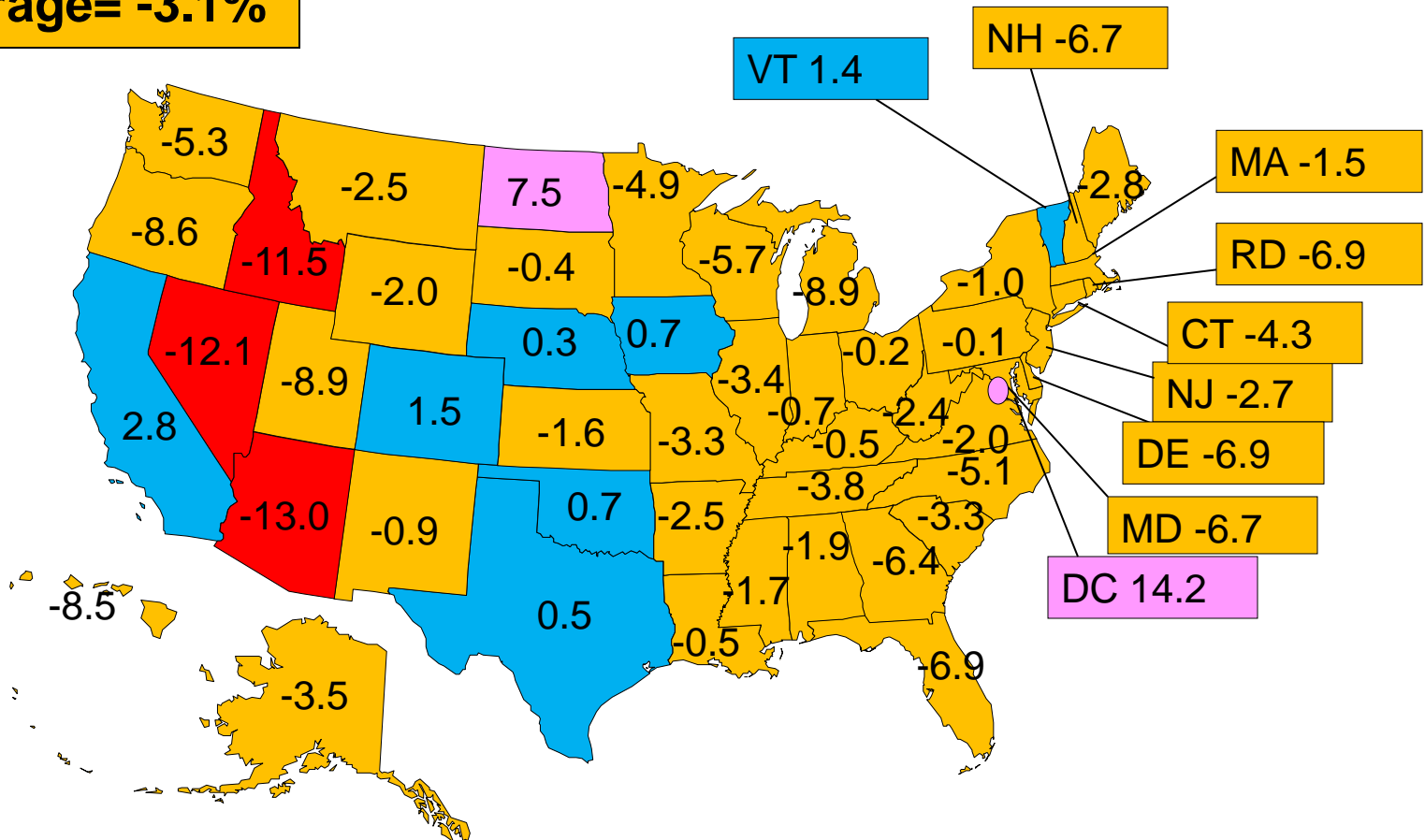
# Unemployment Rate




# Housing Market

2009Q1 to 2010Q1, % change in average price of existing single-family homes

**U.S. average= -3.1%**



■ -15% to -10%

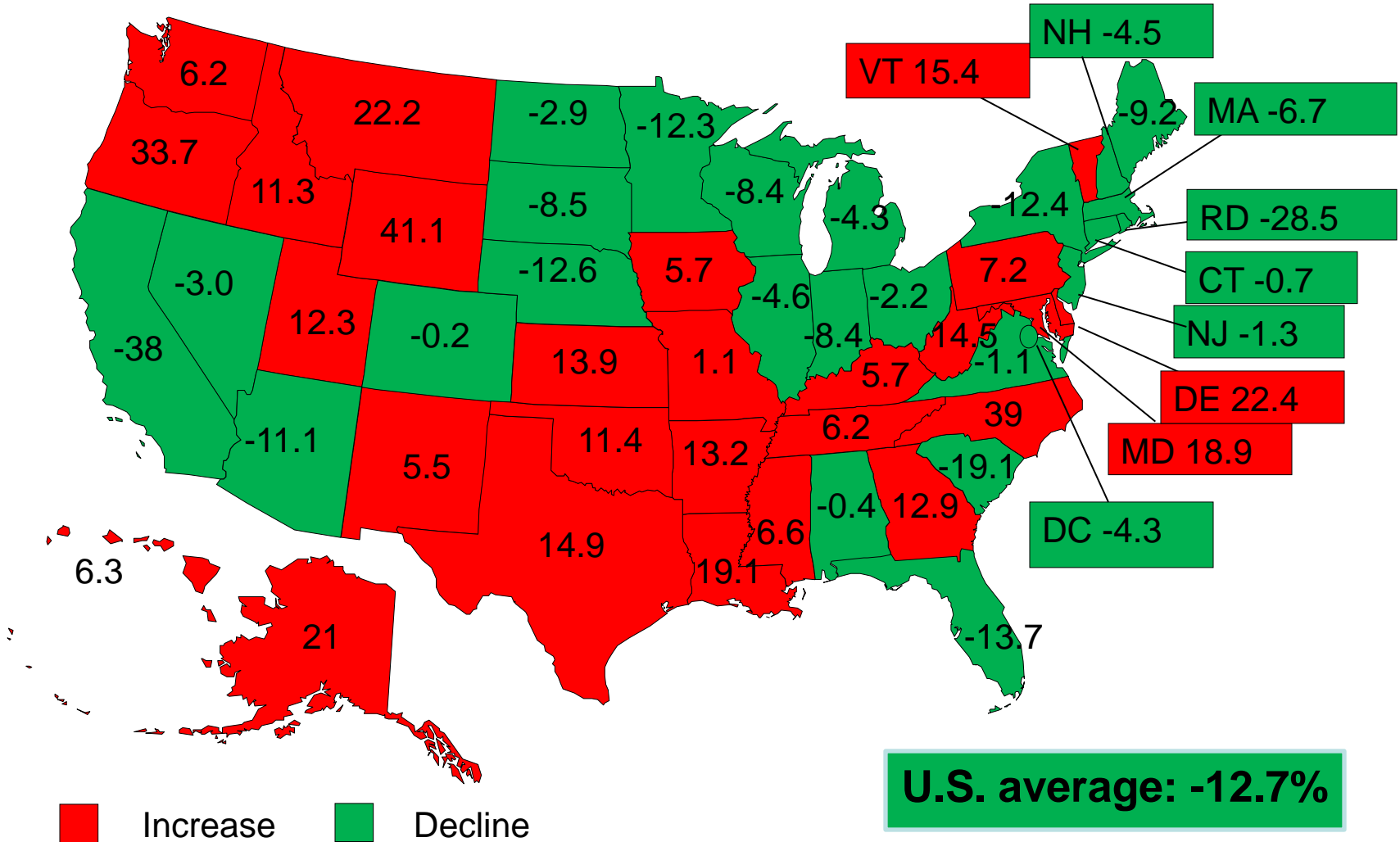
 -9.9% to 0.0%

0.1% to 5.0%

■ 5.1% to 15%

# Foreclosures Trend

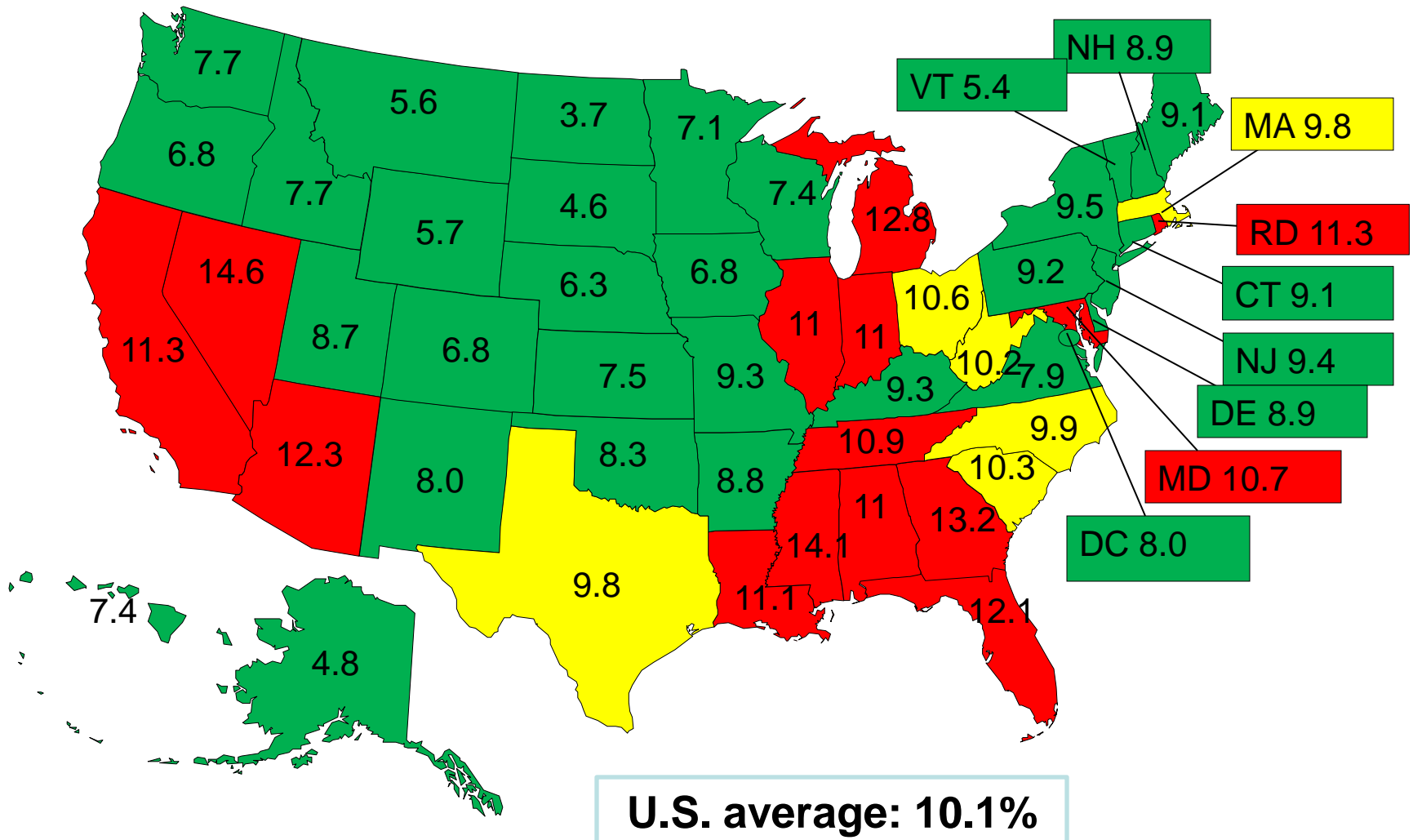
Foreclosures started during quarter, % change 2009Q1-2010Q1





# Households are Under Stress

% of number of all mortgage loans 30+ days delinquent, 2010Q1



Comparing to national average:



worse



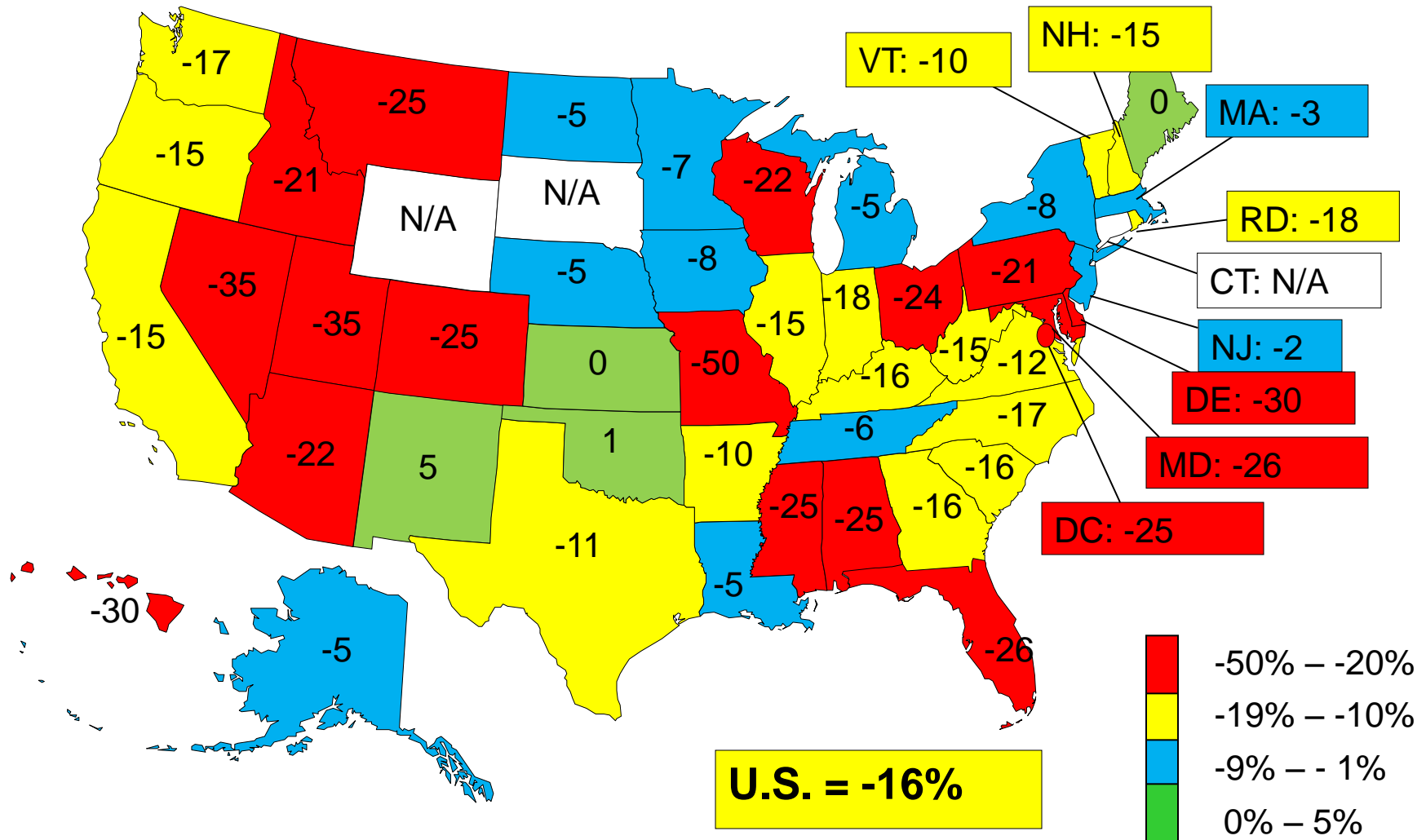
at or near



better

# Commercial RE Sales Price Trends

Based on level of commercial transactions in 2010Q1, Y/Y price change





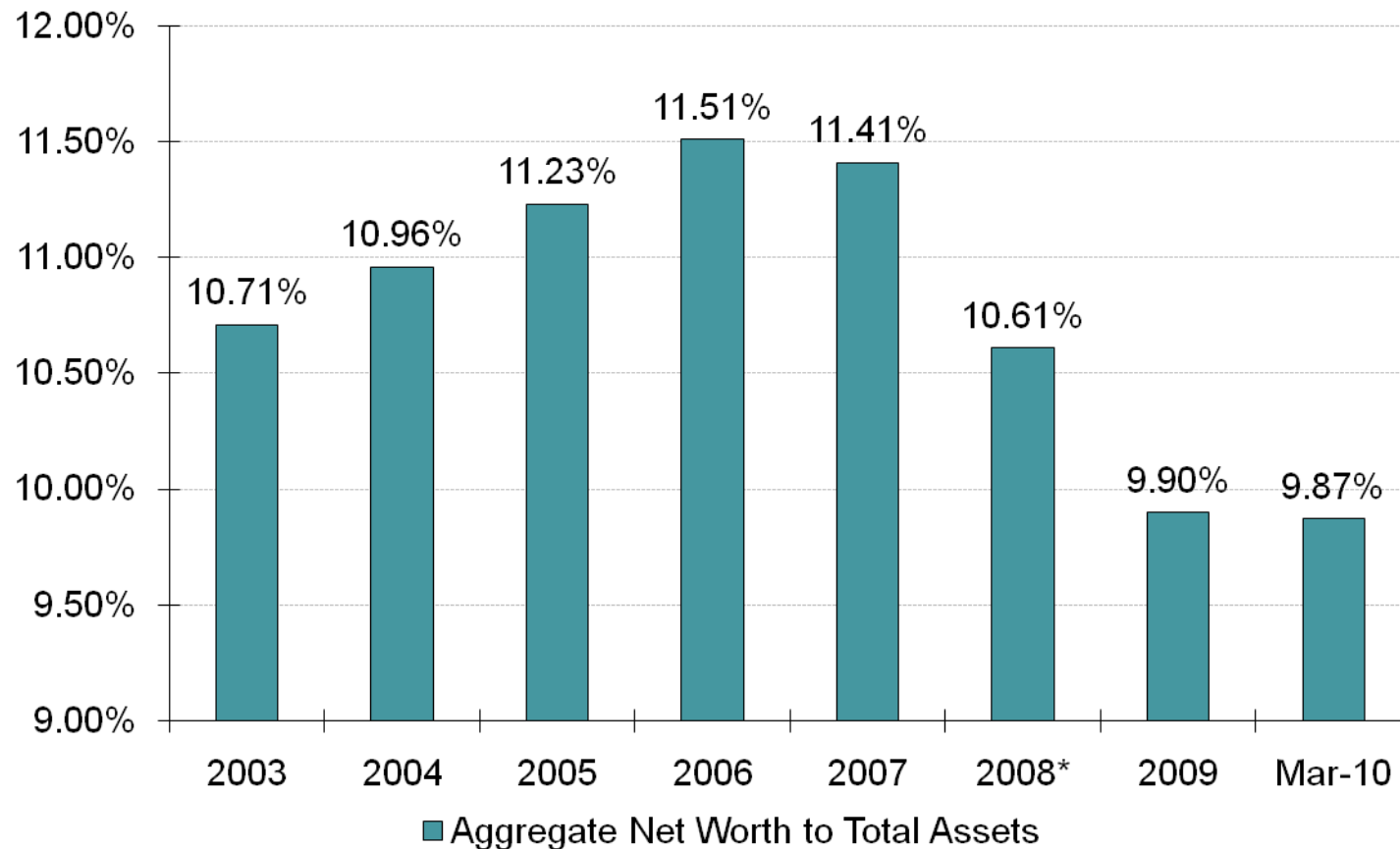


# Credit Union Trends





## Net Worth Ratio



Includes adjustments made after NCUSIF stabilization expense was announced.



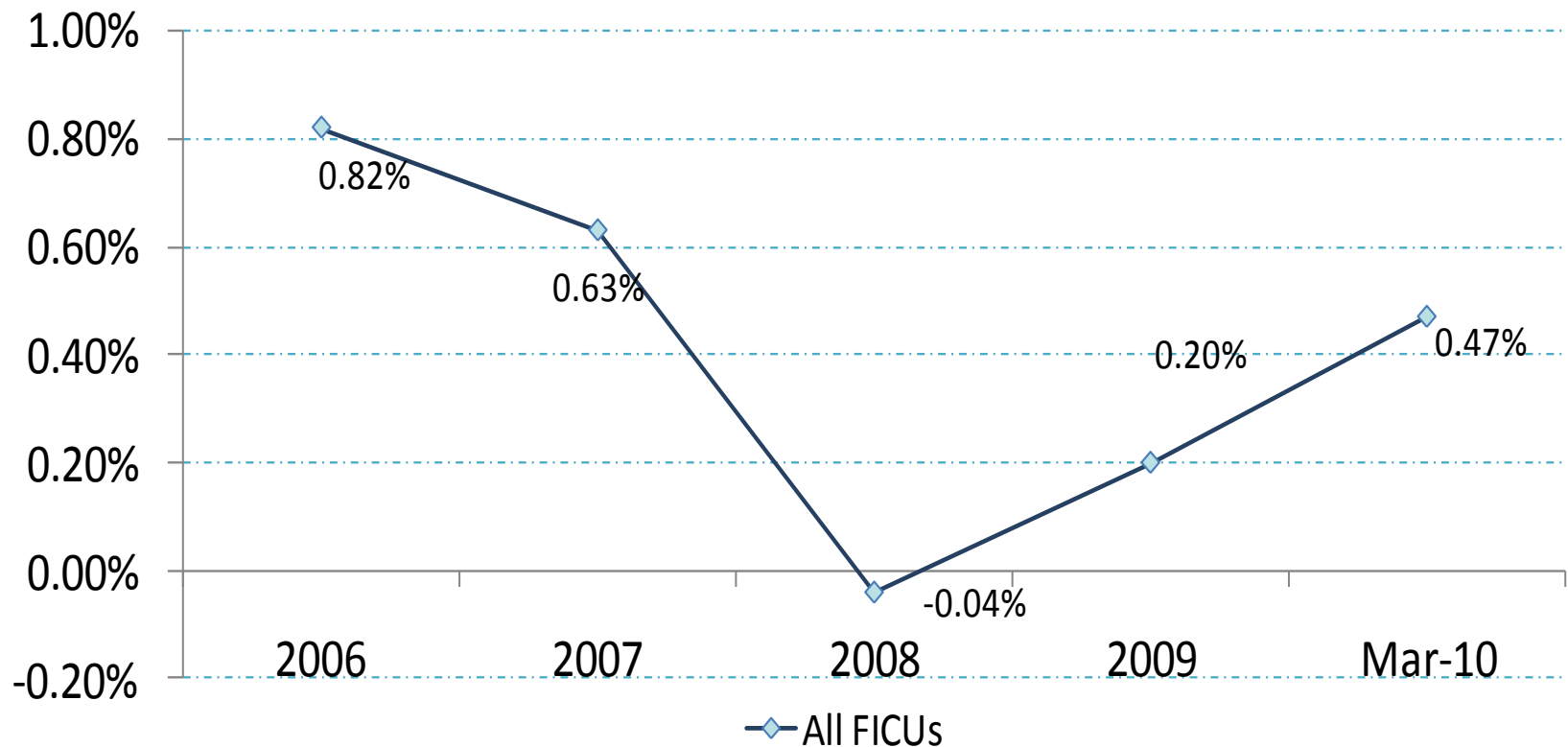
## Supplemental Capital



- Launched an initiative in December 2008 after conversations with state regulators.
- Formed an internal working group at NCUA that researched and reviewed a variety of issues around supplemental capital including consumer protection, mutuality and safety and soundness.
- Issued the Supplemental Capital White Paper on April 12, 2010 and it is available for viewing and downloading on the NCUA website at [www.ncua.gov](http://www.ncua.gov).

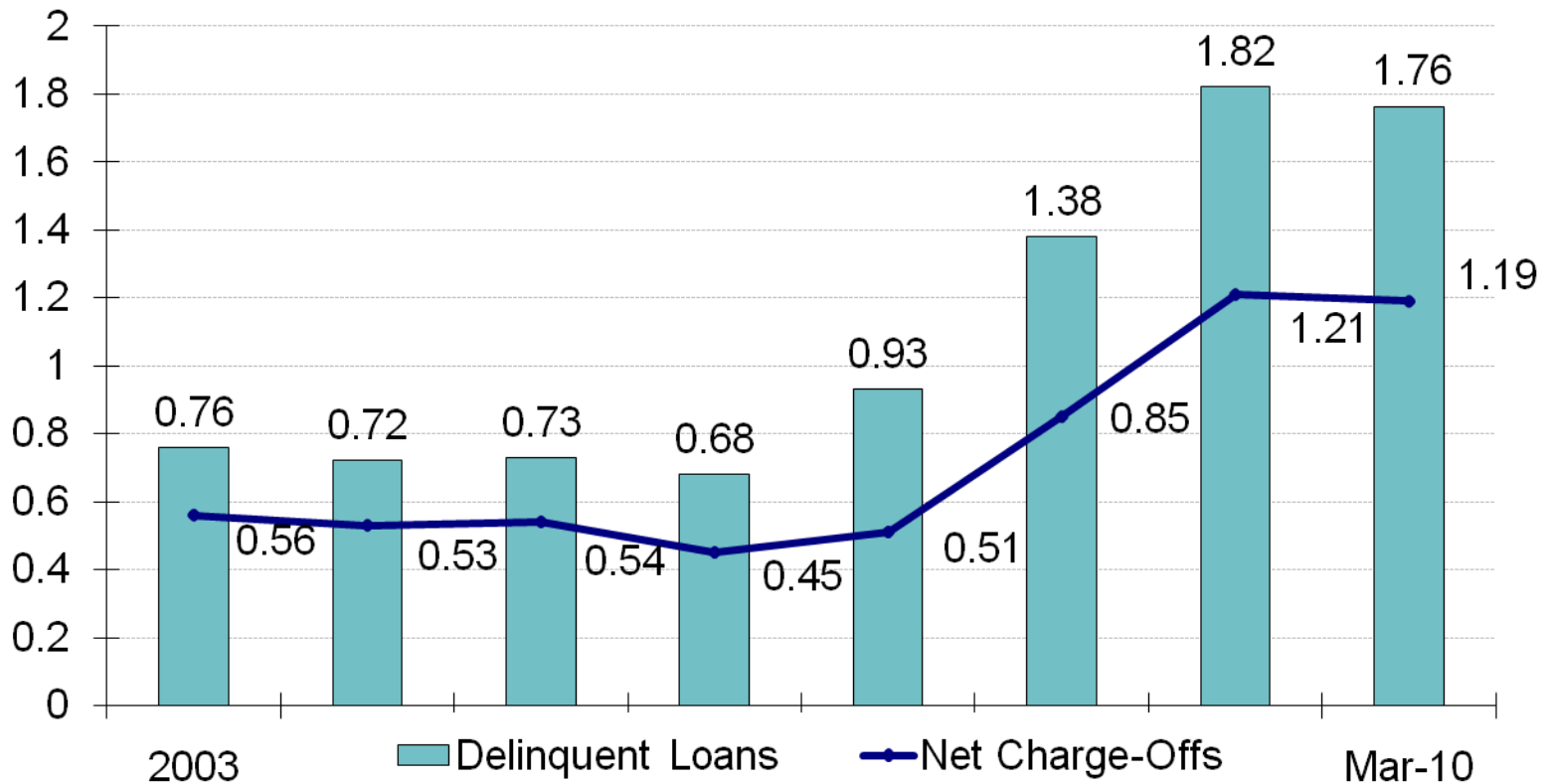


## Return on Average Assets (ROA)





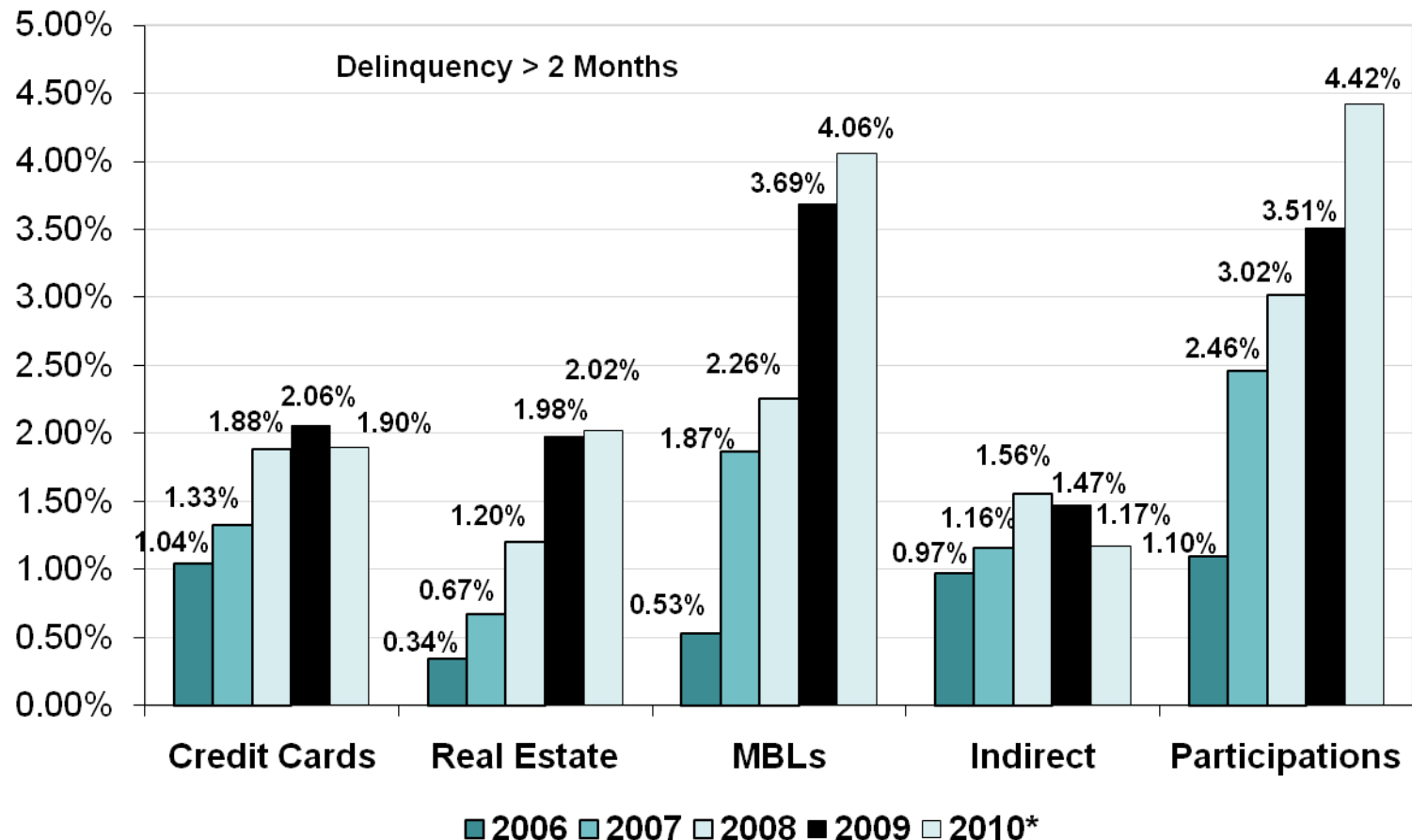
## Delinquency & Charge-Offs







## Delinquency by Type





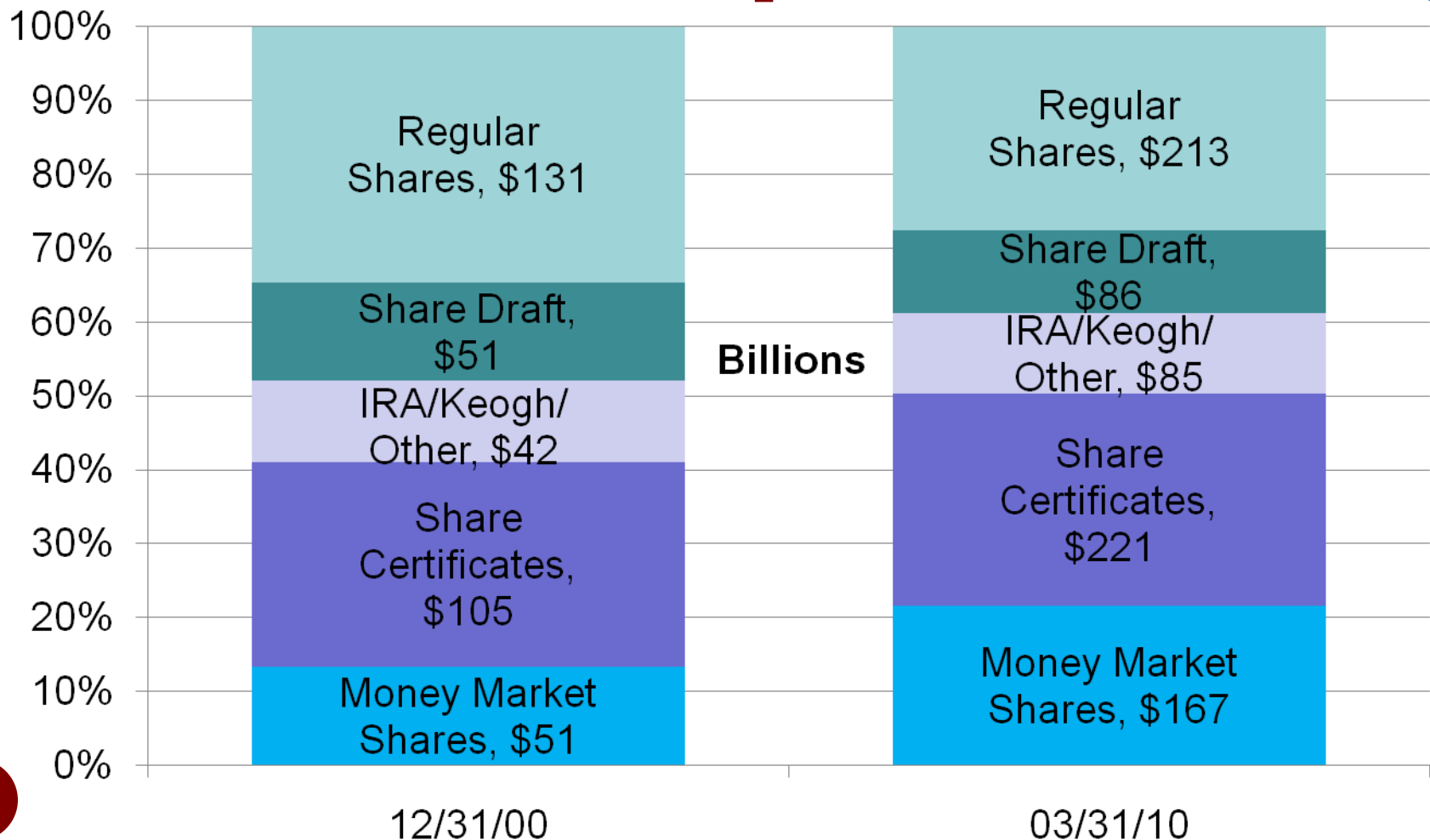


## 2000-2010 Comparison - FICUs

	December 2000	December 2009	March 2010
<b>Number of FICUs</b>	<b>10,316</b>	<b>7,554</b>	<b>7,498</b>
<b>Total Assets</b>	<b>\$438.2 billion</b>	<b>\$884.8 billion</b>	<b>\$897.6 billion</b>
<b>Total Shares</b>	<b>\$379.2 billion</b>	<b>\$752.7 billion</b>	<b>\$773.2 billion</b>
<b>Total Loans</b>	<b>\$301.3 billion</b>	<b>\$572.4 billion</b>	<b>\$565.7 billion</b>
<b>Average Asset Size</b>	<b>\$42.5 million</b>	<b>\$117.1 million</b>	<b>\$119.7 million</b>
<b>Net Worth Ratio (Aggregate)</b>	<b>11.43%</b>	<b>9.91%</b>	<b>9.87%</b>



## Share Composition





## Changing Balance Sheet



	12/31/00	12/31/09	3/31/10
<b>% Real Estate Loans to Total Loans</b>	<b>38.71%</b>	<b>54.07%</b>	<b>54.58%</b>
<b>Net Long-Term Assets to Assets</b>	<b>22.67%</b>	<b>31.50%</b>	<b>31.84%</b>
<b>% of Regular Shares to Total Shares</b>	<b>34.28%</b>	<b>26.54%</b>	<b>27.56%</b>
<b>% of Fee Income to Net Income</b>	<b>64.89%</b>	<b>152.70%*</b>	<b>155.75%</b>



# Concentration Risk in Federally Insured Credit Unions



	Balance 3/31/10
Real Estate Loans	\$308.7 billion
Member Business Loans (MBLs)	\$35.6 billion
Loan Participations	\$12.4 billion
Mortgage-Related Securities	\$61.3 billion



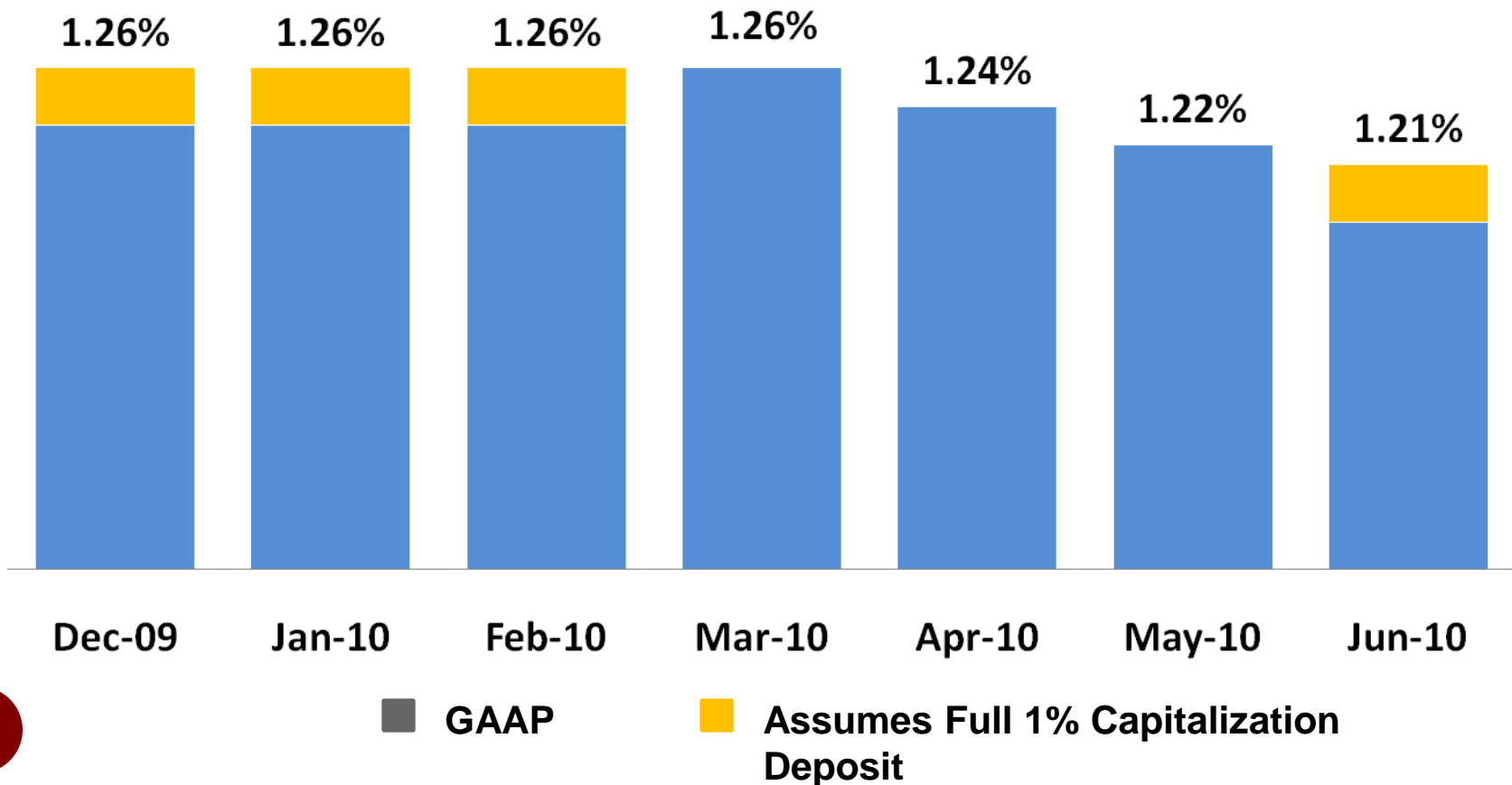


# National Credit Union Share Insurance Fund (NCUSIF)





## NCUSIF Equity Ratio







# NCUSIF Insurance Loss Expense And Changes to the Reserves June 30, 2010

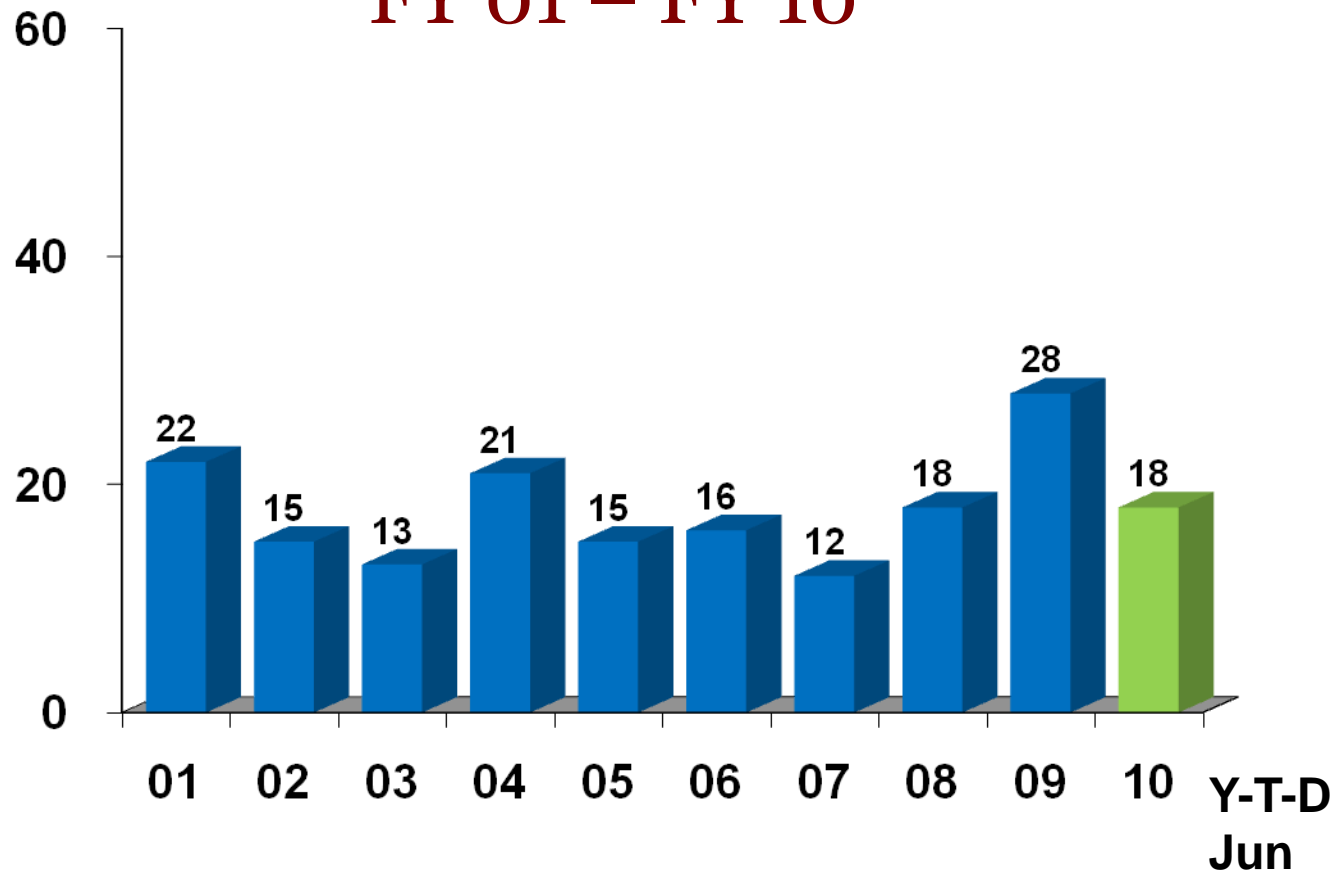


(In Millions)

	June	Year-to-Date
Beginning Reserve Balance	1066.7	758.7
Insurance Loss Expense – Natural Person CU	16.6	326.1
Recoveries – Natural Person CU	6.1	59.2
Less Charges – Natural Person CU	5.0	59.6
Ending Reserve Balance	1,084.4	1,084.4

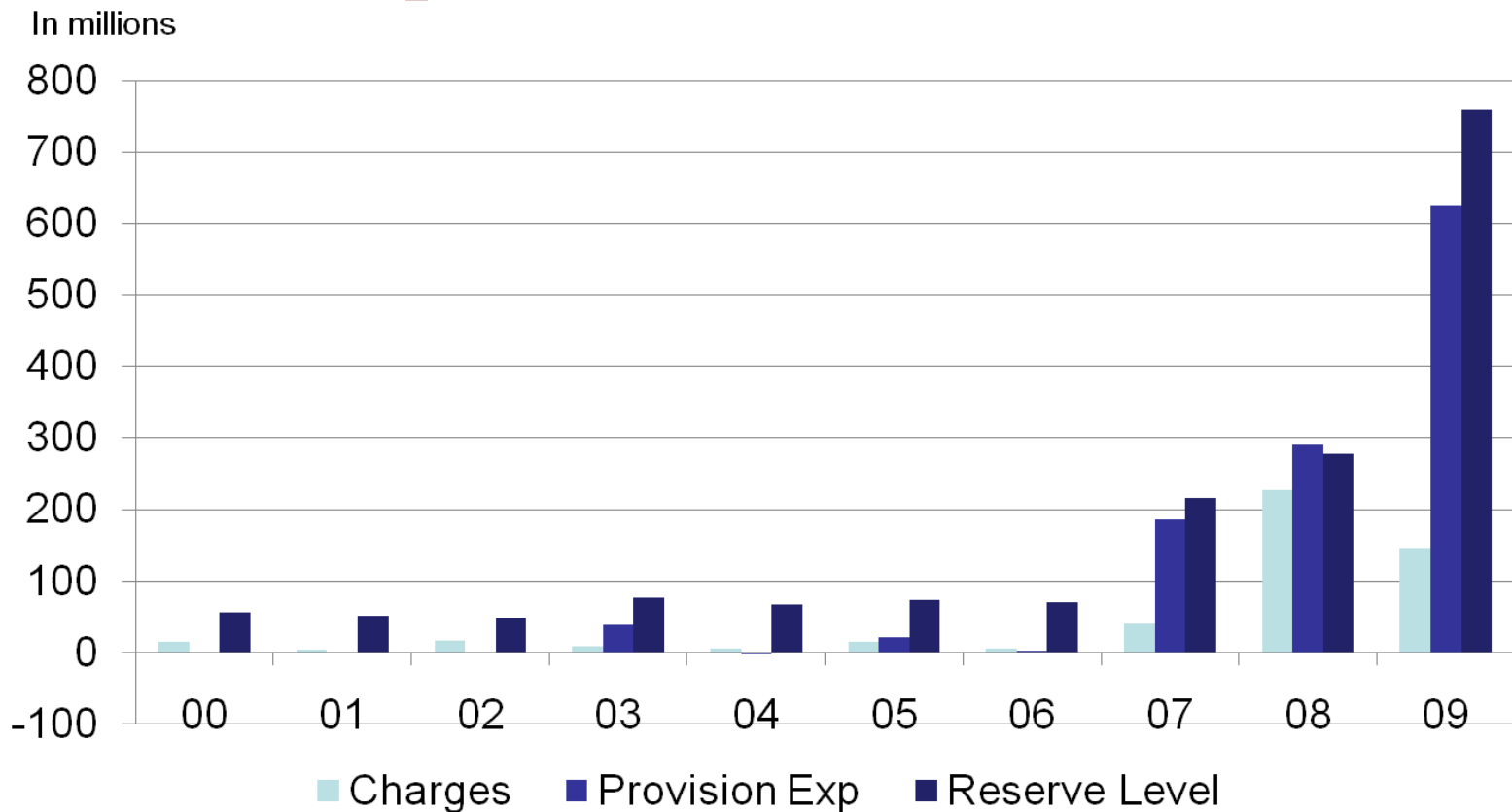


## Number of Credit Union Failures FY 01 – FY 10



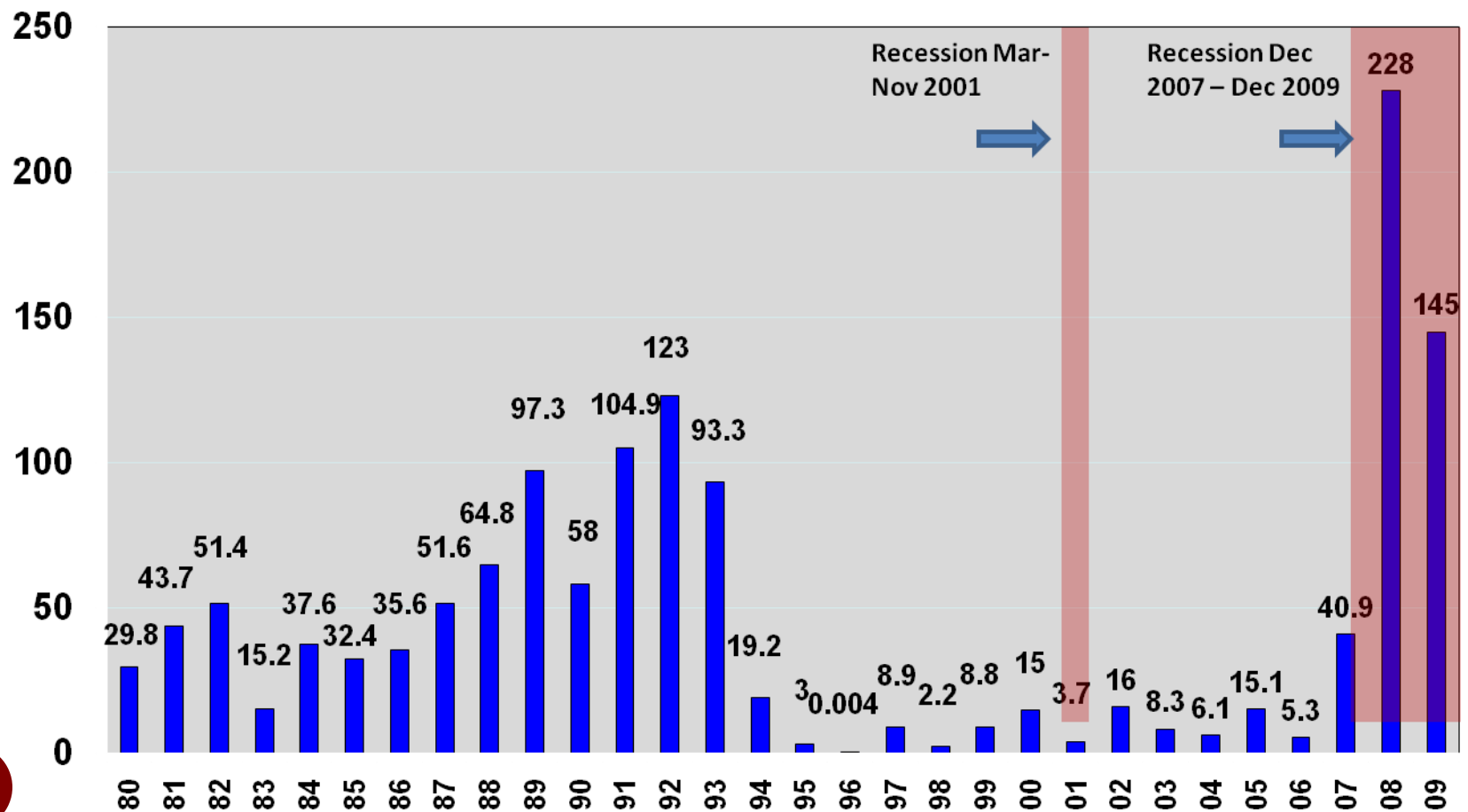


# NCUSIF Charges, Provision for Loss Expenses and Reserves



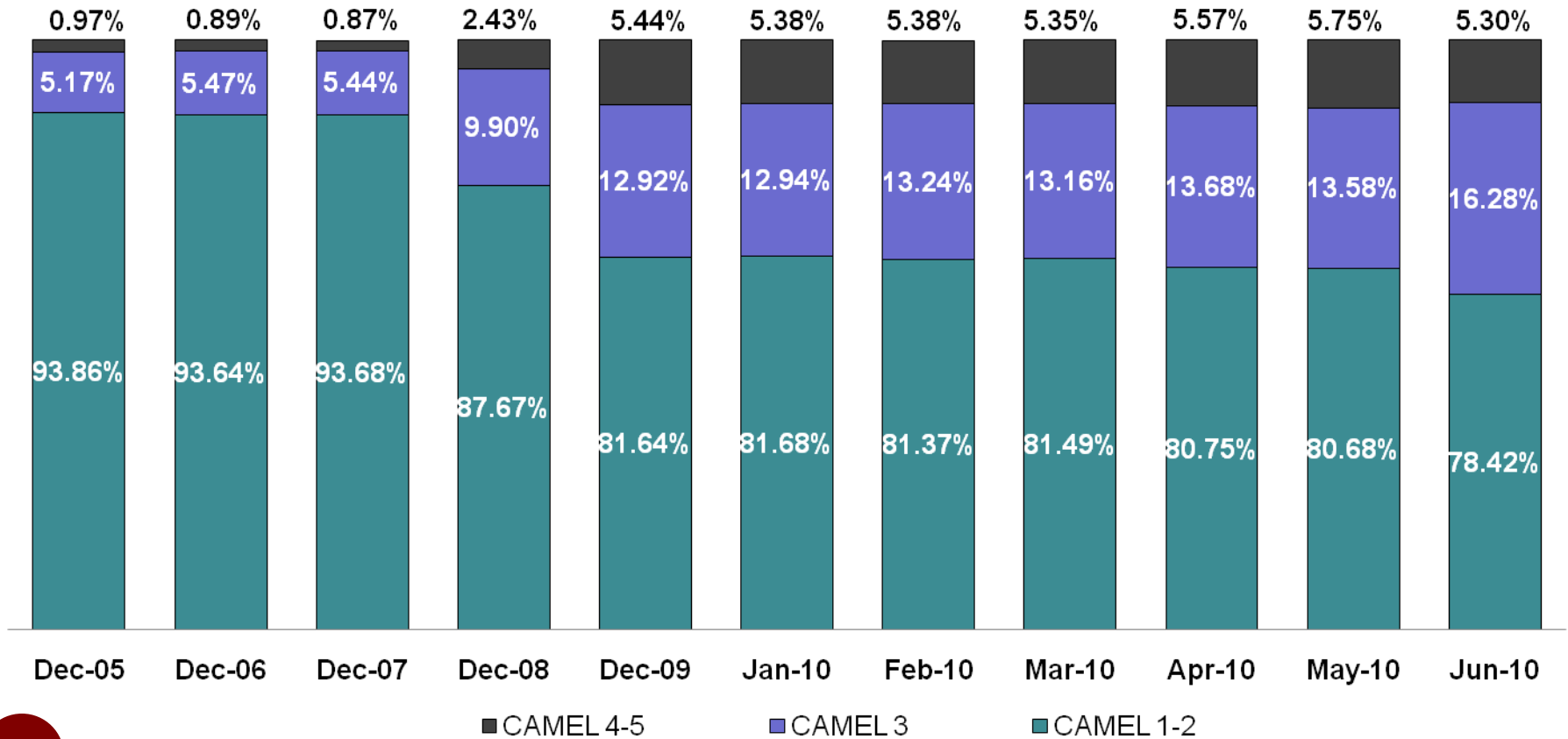


# History of Charges to NCUSIF Reserves





## Distribution of Assets in CAMEL Codes







# Current Regulatory Issues







# Current Regulatory Issues



## Corporate Credit Unions

- At the June Board meeting, the NCUA Board approved a 13.4 basis point assessment on federally insured credit unions to repay the \$1.5 billion in outstanding borrowed funds in the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) on September 30, 2010.
- Staff is working on finalizing the proposed rule based on the 800+ comment letters NCUA received.
- 3 presentations on our website designed to help you understand the corporate credit union crisis
- The agency is working to find a mechanism to address corporate “distressed assets” in a manner that is the least cost to the credit union system.



## Current Regulatory Issues



### NCUA Letter to Credit Unions 10-CU-11

- Provides information on NCUA's merger and purchase & assumption (P&A) process in response to the numerous inquiries and questions on the subject.
- The letter addresses several topics involving mergers and P&As including:
  - An explanation of the P&A process and the various types of mergers;
  - The criteria used to evaluate mergers and P&As;
  - The identification of merger and P&A partners; and
  - The selection of an acquirer in the limited circumstances when NCUA is involved in making the choice.



## Current Regulatory Issues



### **Proposed Rule on Fiduciary Duties at FCUs; Mergers and Conversions of Insured Credit Unions (12 CFR Parts 701, 708a and 708b)**

- The proposal has four parts.
  - A new §701.4 addresses the duties of federal credit union directors in managing the affairs of their credit unions.
  - Revisions to part 708a address issues related to credit union conversions to mutual savings banks.
  - A new subpart to part 708a sets forth the procedures for merging a credit union into a bank.
  - Revisions to the existing provisions of part 708b address issues related to credit union mergers with other credit unions and the termination of federal deposit insurance.



## Current Regulatory Issues



- Section 701.4
  - Proposes a federal regulatory standard of care for directors that will help ensure they meet their fiduciary duties to their members, both in general and also when making decisions that affect the fundamental interests of members.
  - Provides that management of each FCU is vested in its board of directors who can delegate operational function but not the responsibility for operations.





## Current Regulatory Issues



- Proposed federal regulatory standard of care -- an FCU director must:
  - Carry out his or her duties in good faith;
  - In a manner reasonably believed to be in the best interests of the membership of the federal credit union; and
  - With such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
- An FCU director must also:
  - Administer the affairs of the federal credit union fairly and impartially and without discrimination in favor of or against any particular member;
  - Understand the federal credit union's balance sheet and income statement and, ask, as appropriate, substantive questions of management and the internal and external auditors; and
  - Direct the operations of the federal credit union in conformity with the requirements set forth in the Federal Credit Union Act (Act), the NCUA's regulations, other applicable law and sound business practices.



## Current Regulatory Issues



- Other important aspects of the proposal:
  - The proposed rule applies to federal credit unions only, and not to state chartered federally-insured credit unions.
  - The proposal discusses the authority and limits of the board's ability to rely on information provided by others. A director is generally entitled to rely on information prepared or presented by employees of the federal credit union or consultants whom the director reasonably believes to be reliable and competent in the functions performed.
  - The proposal also amends the indemnification provisions of NCUA's rules to prohibit a federal credit union from indemnifying officials and employees for liability from misconduct that is grossly negligent, reckless, or willful in connection with a decision that affects the fundamental rights of members. NCUA is also proposing a change to NCUA's standard bylaw on indemnification to conform that bylaw with the proposed change to the rule on indemnification. The proposal makes a corresponding change to the standard federal corporate credit union bylaw on indemnification.





## Ongoing Challenges for Directors

- Staying abreast of current issues and trends
- Asking the tough questions. You are **not** management's rubber stamp.
- Attracting qualified volunteers with diverse experience to serve on the board.
- Setting a strategic direction for your credit union that assures, as much as possible, the credit union's future sustainability.



# Thank You

